

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

RIVERDEEP INTERACTIVE LEARNING, LTD.,  
an Irish Company; RIVERDEEP, INC., a  
Delaware Limited Liability Company,

Plaintiffs,

v.

MPS MULTIMEDIA, INC., a California  
Corporation; EDGAR CHEN; and  
SELECTSOFT PUBLISHING,

Defendants.

No. C 06-5597 CW

ORDER DENYING  
PLAINTIFFS'  
APPLICATION FOR  
TEMPORARY  
RESTRAINING  
ORDER, AND  
GRANTING  
EXPEDITED  
DISCOVERY AND  
PRESERVATION OF  
DOCUMENTS

Plaintiffs Riverdeep Interactive Learning, Ltd. (RIL) and its  
United States affiliate Riverdeep, Inc. (collectively, Plaintiffs)  
move for a temporary restraining order. In addition, they request  
that the Court order expedited discovery and document preservation.  
Defendants MPS Multimedia, Inc., d/b/a Selectsoft Publishing (MPS),  
and Edward Chen (collectively, Defendants) oppose Plaintiffs'  
application. The matter was submitted on the papers. Having  
considered the parties' papers, the Court grants Plaintiffs'  
request for expedited discovery and document preservation, but it

1 denies Plaintiffs' request for a temporary restraining order.

2 BACKGROUND

3 Riverdeep and MPS are United States educational software  
4 publishers. In 2001, MPS and Riverdeep's predecessor entered into  
5 a licensing agreement permitting MPS to replicate and distribute  
6 certain children's educational software, including a variety of  
7 "Carmen San Diego" and "Reader Rabbit" titles. That agreement has  
8 been amended and renewed many times. RIL is Riverdeep's indirect  
9 corporate parent and owns the registered copyrights for much of the  
10 software licensed by Riverdeep to MPS under the agreement. RIL  
11 granted Riverdeep license and sub-license rights in its software.  
12 The trademarks for the licensed software are owned by both RIL and  
13 Riverdeep.

14 Under the licensing agreement, MPS agreed to pay a fixed  
15 guaranteed license fee plus a per unit license fee calculated on  
16 the number of units it produced. MPS was required to send a  
17 quarterly report showing sales, the number of copies of each  
18 product manufactured by MPS and the calculation of the royalties  
19 for the proceeding quarter. In addition, the agreement required  
20 that MPS permit Riverdeep specific inspection rights to assure  
21 proper computation of royalty payments.

22 The agreement permitted MPS to distribute software to the  
23 "Non-mainstream Retail Channel," which included independent  
24 retailers, but excluded "big box" stores and schools. Among MPS'  
25 customers were Software Outlet and Most Significant Bits, which  
26 sold software through their own "brick and mortar" retail stores  
27 and mail orders and, later, also through the internet.

1 In February, 2004, Riverdeep and MPS entered into a new  
2 agreement, which included a provision that prohibited MPS from  
3 selling software to any third party that would sell, market or  
4 distribute the software via the internet. According to MPS,  
5 Riverdeep slipped this change in the "authorized sales channel"  
6 language in a draft of an amendment to the agreement, after MPS had  
7 agreed to make the largest prepaid guaranteed license fee in the  
8 parties' history. Defendant Chen, MPS' Vice President, protested  
9 the change; most, if not all, of MPS' customers, including Software  
10 Outlet and Most Significant Bits, now sold products on the  
11 internet. Riverdeep's Vice President, John Bartlett, however,  
12 assured Defendant Chen that Riverdeep would work with MPS in  
13 preserving those customer relationships. An exception to the no-  
14 internet-sale provision was added to the February, 2004 agreement,  
15 allowing MPS to continue sales to internet resellers that also had  
16 "brick and mortar" retail stores. Under this exception, MPS could  
17 continue selling software to Software Outlet and Most Significant  
18 Bits. But, if MPS sold Plaintiffs' products to any third party  
19 internet retailer that did not have a brick and mortar retail  
20 store, Riverdeep had the right to terminate the agreement  
21 immediately.

22 In 2005, Riverdeep sued Software Outlet. Unbeknownst to MPS,  
23 Software Outlet had closed its brick and mortar retail stores in  
24 favor of mail order and internet sales. Defendant Chen states  
25 that, when he learned of the law suit, he asked Mr. Bartlett what  
26 Riverdeep expected of MPS. According to Defendant Chen, Mr.  
27 Bartlett stated that MPS did not have to stop selling Riverdeep  
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1 titles to Software Outlet. A year later, however, another  
2 Riverdeep Vice President, Bill Cunningham, approached Mr. Chen and  
3 asked him to stop selling Riverdeep titles to Software Outlet.  
4 Defendant Chen agreed not to sell Plaintiffs' software to Software  
5 Outlet.

6       Shortly after MPS informed Software Outlet that MPS could no  
7 longer sell Riverdeep titles to it, Defendant Chen learned that  
8 Riverdeep was settling its lawsuit with Software Outlet. As part  
9 of the settlement, Software Outlet would buy its Riverdeep titles  
10 directly from Riverdeep. Around the same time, Defendant Chen  
11 learned that Mr. Cunningham had approached MPS' customer, Most  
12 Significant Bits, encouraging it to buy direct from Riverdeep,  
13 instead of from MPS.

14       In May, 2006, after learning that MPS was selling to internet  
15 retailers operating without a brick and mortar retail store,<sup>1</sup>  
16 Riverdeep sought an audit of MPS' manufacturing and sales. As part  
17 of the audit, Riverdeep demanded that its auditors have access to  
18 MPS' customer lists. MPS refused. According to Riverdeep, MPS'  
19 refusal to allow auditors to see the identity of MPS' customers  
20 thwarted a meaningful independent audit.

21       On August 16, 2006, Riverdeep sent a letter to Defendant Chen.  
22 The letter stated that, because MPS materially breached the  
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24       <sup>1</sup>Riverdeep alleges that, in addition to selling Riverdeep  
25 products to Software Outlet and Most Significant Bits, MPS was also  
26 selling Riverdeep products to Arcamax and www.nothingbutsoftware.  
27 According to Riverdeep's investigations, these two internet  
28 retailers sell software exclusively on the internet and do not have  
a "brick and mortar location." Defendants do not address these  
allegations in their opposition.

1 agreement by distributing Riverdeep products outside authorized  
2 channels and repudiated Riverdeep's audit demand, Riverdeep had no  
3 option but to terminate the agreement. Upon termination for  
4 violation of authorized channels, MPS' rights terminated  
5 immediately; MPS did not have the right to sell off any remaining  
6 inventory.

7 Plaintiffs learned that, after the agreement was terminated,  
8 MPS continued to market, sell and distribute Riverdeep products.  
9 On September 12, 2006, Plaintiffs filed a complaint against MPS,  
10 Defendant Chen and Selectsoft Publishing, alleging breach of the  
11 license agreement, copyright and trademark infringement and other  
12 claims. On September 22, 2006, Plaintiffs filed an application for  
13 a temporary restraining order, seeking to enjoin Defendants'  
14 alleged ongoing infringement of Plaintiffs' copyrights and  
15 trademarks through MPS' marketing and sale of Plaintiffs' software  
16 without a license.

#### 17 LEGAL STANDARD

18 A temporary restraining order may be issued only if "immediate  
19 and irreparable injury, loss, or damage will result to the  
20 applicant" if the order does not issue. Fed. R. Civ. P. 65(b). To  
21 obtain a temporary restraining order, the moving party must  
22 establish either: (1) a combination of probable success on the  
23 merits and the possibility of irreparable harm, or (2) that serious  
24 questions regarding the merits exist and the balance of hardships  
25 tips sharply in the moving party's favor. See Rodeo Collection,  
26 Ltd. v. West Seventh, 812 F.2d 1215, 1217 (9th Cir. 1987).

27 The test for granting a temporary restraining order, like that  
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1 for a preliminary injunction, is a "continuum in which the required  
2 showing of harm varies inversely with the required showing of  
3 meritoriousness." Id. (quoting San Diego Comm. Against  
4 Registration & the Draft v. Governing Bd. of Grossmont Union High  
5 Sch. Dist., 790 F.2d 1471, 1473 n.3 (9th Cir. 1986)). The moving  
6 party ordinarily must show "a significant threat of irreparable  
7 injury," although there is "a sliding scale in which the required  
8 degree of irreparable harm increases as the probability of success  
9 decreases," and vice versa. United States v. Odessa Union  
10 Warehouse Co-op, 833 F.2d 172, 174, 175 (9th Cir. 1987).

#### 11 DISCUSSION

##### 12 I. Temporary Restraining Order

13 Plaintiffs contend that they are likely to prevail on their  
14 copyright and trademark claims. They argue that irreparable harm  
15 is presumed upon a showing of copyright and trademark infringement  
16 and, therefore, this Court should grant their temporary restraining  
17 order. Defendants disagree. They argue that Plaintiffs are not  
18 entitled to a temporary restraining order: Defendants contend that  
19 Plaintiffs are not likely to prevail on the merits and that, in  
20 these circumstances, irreparable harm cannot be presumed. In  
21 addition, they argue that this Court lacks subject matter  
22 jurisdiction. Because subject matter jurisdiction is a threshold  
23 issue which goes to the power of the Court to hear this case, the  
24 Court will address jurisdiction before discussing merits and harm.

##### 25 A. Subject Matter Jurisdiction

26 In their complaint, Plaintiffs allege that this Court has  
27 jurisdiction because this case arises under the Copyright Act and  
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1 the Lanham Act. Defendants argue that Plaintiffs' trademark and  
2 copyrights claims are breach of contract claims in disguise and,  
3 therefore, the Court lacks subject matter jurisdiction over this  
4 contract dispute, which is governed by State law.

5 It is undisputed that federal courts have exclusive  
6 jurisdiction over actions that arise under the federal copyright  
7 laws and original jurisdiction over actions that arise under the  
8 federal trademark law. 28 U.S.C. § 1338. Nonetheless, as  
9 Defendants note, the Ninth Circuit instructs that a case does not  
10 arise under the federal copyright and trademark laws merely because  
11 the subject matter of the action involves or affects a copyright or  
12 trademark. Topolos v. Caldewey, 698 F.2d 991, 993 (9th Cir. 1983)  
13 ("the word 'copyright' is not so compelling as to invoke federal  
14 jurisdiction upon its mere mention") (citation omitted); Postal  
15 Instant Press v. Clark, 741 F.2d 256, 258 (9th Cir. 1984). Thus,  
16 district courts have "dismissed complaints in copyright cases that  
17 present only questions of contract law," as well as complaints in  
18 trademark cases that present only questions of contract law. Dolch  
19 v. United California Bank, 702 F.2d 178, 180 (9th Cir. 1983);  
20 Postal Instant Press, 741 F.2d at 258. However, it is not always  
21 evident "whether a case involving interdependent copyright and  
22 contract claims 'arises under' the federal copyright laws for the  
23 purposes of 28 U.S.C. § 1338(a)"; indeed, this is one of the  
24 "'knottiest problems in copyright jurisprudence,'" Scholastic  
25 Entm't, Inc. v. Fox Entm't Group, Inc., 336 F.3d 982, 983 (9th Cir.  
26 2003) (quoting 3 Melville B. Nimmer & David Nimmer, Nimmer on  
27 Copyrights § 12.01[A], at 12-14 (2003)).

1 Plaintiffs do not address any of the above cases that  
2 Defendants cite in their opposition. Instead, Plaintiffs state  
3 that federal courts regularly decide copyright cases that also  
4 involve contractual licensing disputes, a statement that is  
5 undisputed and that fails to respond to Defendants' arguments  
6 regarding jurisdiction. Plaintiffs do, however, cite Vestron Inc.  
7 v. Home Box Office, Inc., 839 F.2d 1380 (9th Cir. 1988). In  
8 Vestron, the Ninth Circuit determined that the district court had  
9 jurisdiction because the plaintiff's complaint made out an  
10 infringement claim and sought remedies expressly created by federal  
11 copyright law. 839 F.3d at 1381-82. Here, the complaint also  
12 makes out an infringement claim by Plaintiff RIL alone against  
13 Defendants MPS and Chen. RIL seeks damages "in an amount to be  
14 determined at trial, including statutory damages against MPS and  
15 Chen for their knowing and willful infringement of RIL's  
16 copyrights." Complaint, ¶ 29.

17 Nonetheless, by citing this one case and ignoring the cases  
18 Defendants cite, Plaintiffs have not shown likelihood of success on  
19 the merits of their jurisdictional argument. Plaintiffs have only  
20 established that serious questions regarding the merits exist.<sup>2</sup>

21 However, the Court notes that the licensing agreement between  
22 Riverdeep and MPS provides that all claims and lawsuits in  
23 connection with the agreement must be brought in a Massachusetts  
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25 <sup>2</sup>Although Plaintiffs establish that there is at least a  
26 reasonable possibility that the Court has jurisdiction based on  
27 RIL's infringement claim, the Court will again consider whether it  
has jurisdiction when it rules on Defendants' motion to dismiss,  
which was recently filed.



1 court. In their complaint, Plaintiffs state that RIL is not a  
2 party to the agreement, and thus not bound by that language, and  
3 that Riverdeep "waives" its right to have this dispute adjudicated  
4 in Massachusetts. As Defendants note, however, Plaintiffs cannot  
5 unilaterally change the forum selection clause in the license  
6 agreement. Thus, even if there is federal jurisdiction,  
7 Riverdeep's claims against MPS may be brought in the wrong court  
8 and subject to transfer or dismissal.

9 B. Likelihood of Success on the Merits

10 The parties dispute whether Plaintiffs are likely to succeed  
11 on the merits of their claims.

12 To prevail on their copyright and trademark infringement  
13 claims,<sup>3</sup> Plaintiffs must show ownership of a valid copyright and  
14 trademark and that Defendants violated their exclusive rights under  
15 the Copyright Act and the Lanham Act. See Ellison v. Robertson,  
16 357 F.3d 1072, 1076 (9th Cir. 2004). Plaintiffs note that there is  
17 no dispute regarding their ownership. Nor is there a dispute that  
18 Defendants sold software to internet-only retailers. Defendants do  
19 not deny that they continue to sell licensed software, even after  
20 they received notice of termination of the licensing agreement.  
21 Instead, Defendants contend that, in light of representations made  
22 by Plaintiffs, they were entitled to sell Plaintiffs' software to  
23 MPS' existing customers. Because Defendants do not respond to

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25 <sup>3</sup>Plaintiffs' application for a temporary restraining order  
26 states that Riverdeep and RIL are likely to prevail on their  
27 trademark claims. According to the complaint, however, RIL only  
brings a claim for copyright infringement; it does not bring a  
trademark infringement claim.

1 Plaintiffs' allegations concerning MPS selling software to Arcamax  
2 and www.nothingbutsoftware, it is not known whether these two  
3 companies were existing customers. Plaintiffs argue that  
4 Defendants' subjective beliefs regarding the agreement, based on  
5 alleged assurances by Mr. Barlett, are irrelevant under California  
6 law because the licensing agreement is an integrated agreement. It  
7 is not clear, however, that California law governs the contract.  
8 The agreement states that "its validity, construction and  
9 performance shall be governed in all respects by the laws of the  
10 Commonwealth of Massachusetts." Regardless of what State law  
11 governs, the Court finds that Plaintiffs have not shown that they  
12 are likely to succeed on the merits; they have shown only that  
13 serious questions exist regarding the merit of their copyright and  
14 trademark infringement claims.

15 C. Irreparable Harm and Balance of Hardships

16 Plaintiffs note that "a presumption of irreparable injury  
17 arises if the plaintiff is able to show a likelihood of success on  
18 the merits of its copyright infringement claim." Cadence Design  
19 Sys., Inc. v. Avant! Corp., 125 F.3d 824, 826-27 (9th Cir. 1997).  
20 The same presumption arises in trademark infringement cases.  
21 Nautilus Group, Inc. v. ICON Health and Fitness, Inc., 372 F.3d  
22 1330, 1334 (Fed. Cir. 2004). But, here, Plaintiffs were unable to  
23 show a likelihood of success on the merits of their copyright or  
24 trademark infringement claims. Thus, there is no presumption of  
25 irreparable injury.

26 Instead, the Court must determine whether the balance of  
27 hardships tips sharply in Plaintiffs' favor. Plaintiffs contend

1 that it does because they will suffer actual irreparable harm if  
2 MPS is not enjoined. According to Plaintiffs, Riverdeep has  
3 licensed other parties to distribute its software over the internet  
4 and operates its own internet-based direct-to-consumer website;  
5 therefore, to the extent that MPS continues to represent that it is  
6 an authorized distributor, to copy and to distribute Plaintiffs'  
7 software and to use Plaintiffs' trademarks, MPS' conduct harms  
8 Riverdeep's market, brand name and other distributors.

9 MPS disagrees that any such harm to Plaintiffs would be  
10 irreparable. It contends that there is no conceivable harm to  
11 Plaintiffs that cannot be remedied through monetary damages.  
12 Instead, it focuses on the considerable hardship it would suffer if  
13 the Court granted Plaintiffs' application for a temporary  
14 restraining order. MPS notes that it would be unable to fill  
15 orders from customers and would thereby jeopardize long-term  
16 business relationships; it also notes that it would be stuck with a  
17 considerable inventory for which it has already paid.

18 Plaintiffs' argument that the Court should ignore any possible  
19 hardship to Defendants is unpersuasive. In Cadence Design, the  
20 Ninth Circuit instructs that, where the defendant contends that it  
21 will lose profits "from an activity which has been shown likely to  
22 be infringing," the defendant's hardship "merits little equitable  
23 consideration." Cadence Design, 125 F.3d at 830. But, as noted  
24 above, Plaintiffs have not shown that they are likely to succeed on  
25 their claims. Thus, the Court considers Defendants' hardship.

26 The Court finds that Plaintiffs do not show that the balance  
27 of hardships tips sharply in their favor. Plaintiffs provide no  
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1 evidence that their brand name, market or other distributors are  
2 harmed by MPS' conduct. Any loss in profits would be compensable  
3 with money damages.

4 II. Expedited Discovery and Preservation Order

5 While Plaintiffs are unable to show that they are entitled to  
6 a temporary restraining order, they may, with additional evidence,  
7 be able to show that they are entitled to a preliminary injunction.  
8 Plaintiffs seek expedited discovery for their preliminary  
9 injunction motion. In addition, Plaintiffs ask the Court to issue  
10 a document preservation order to require Defendants to preserve any  
11 documents and communications relating to the assignment,  
12 manufacturing, sale, distribution or copying of Plaintiffs'  
13 products.

14 Courts allow expedited discovery upon a showing of good cause.  
15 Semitool, Inc. v. Tokyo Electron Am., Inc., 208 F.R.D. 273, 276  
16 (N.D. Cal. 2002) (noting that courts have recognized that good  
17 cause is frequently found in cases involving claims of infringement  
18 and unfair competition). In Semitool, the court explained, "Good  
19 cause may be found where the need for expedited discovery, in  
20 consideration of the administration of justice, outweighs the  
21 prejudice to the responding party." Id. The Court finds that  
22 there is good cause for expedited discovery; such discovery would  
23 allow Plaintiffs to present their motion for preliminary injunction  
24 on a more fully developed record and would assist the Court in  
25 determining whether a preliminary injunction should be granted.

26 Defendants do not contest a document preservation order.  
27 Although Defendants disagree with Plaintiffs' arguments regarding  
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1 the need for expedited discovery, they are willing to agree that  
2 the parties may propound and respond to discovery in less than the  
3 standard time frame. Defendants seek two weeks to gather the  
4 documents Plaintiffs request. Two weeks is a reasonable amount of  
5 time.

6 Defendants, however, state that they will produce certain  
7 responsive documents only if a protective order is in place.  
8 Specifically, they request that the Court order that any production  
9 of MPS' customers list be made "for attorneys' eyes only." Given  
10 the relationship between the parties, this request is reasonable.  
11 The Court is not persuaded that designating the customer lists "for  
12 attorneys' eyes" will hamper Plaintiffs' counsel's efforts in  
13 preparing the preliminary injunction motion. Plaintiffs' counsel  
14 can do their own research concerning whether certain of MPS'  
15 customers are internet-only retailers, without a brick and mortar  
16 store.

17 The Court orders that any production of MPS' customer lists be  
18 made "for attorneys' eyes only." In addition, although defense  
19 counsel likely has already instructed Defendants regarding document  
20 preservation, the Court orders Defendants to preserve all relevant  
21 documents.

#### 22 CONCLUSION

23 For the foregoing reasons, Plaintiff's Application for a  
24 Temporary Restraining Order, Expedited Discovery and Preservation  
25 of Documents (Docket No. 3) is GRANTED IN PART and DENIED IN PART.  
26 Specifically, the Court denies Plaintiffs' application for a  
27 temporary restraining order, but grants Plaintiffs' request for

1 expedited discovery and document preservation. Defendants shall  
2 produce, within two weeks from the date of this order, the  
3 documents requested in Plaintiffs' First Request for Production,  
4 attached to Plaintiffs' proposed order as Exhibit A. The identity  
5 of buyers shall be confidential and "for attorneys' eyes only." In  
6 addition, Defendants are ordered to preserve any documents and  
7 communications relating to the assignment, manufacturing, sale,  
8 distribution or copying of Plaintiffs' software.

9 IT IS SO ORDERED.

10 Dated: 10/11/06



11 CLAUDIA WILKEN  
12 United States District Judge  
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